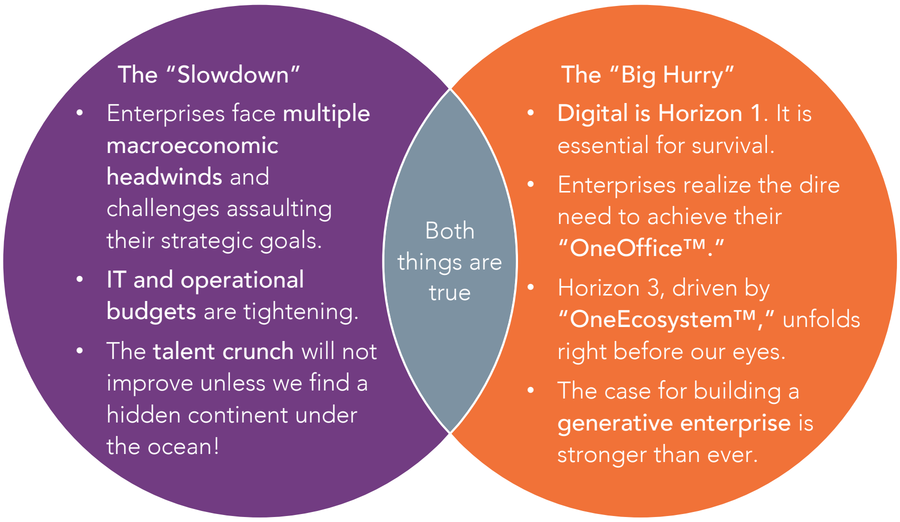
HCLTech's "supercharging progress" claim is more than marketing for BFSI firms battling the "digital dichotomy"

Elena Christopher, Chief Research Officer

Throughout 2023, HFS has written and talked about the "digital dichotomy," where enterprises are striving to balance the macroeconomic "slowdown" with the "big hurry" to innovate (see Exhibit 1). This reality permeates all sectors, but in the banking, financial services, and insurance (BFSI) sectors, it has the distinct flavor of limited digital investment anywhere outside of retail banking and personal lines in P&C insurance. And even within these areas, the emphasis has been decidedly front-office, focused on sexying-up consumer interaction points and buoying customer experience with much less front-to-back "make it really work" integration than needed.

Exhibit 1: 2023 is the year of the Digital Dichotomy; the challenge is to balance the macroeconomic "Slowdown" with the "Big Hurry" to innovate



Source: HFS Research, 2023

HCLTech leans into its infrastructure services reputation as the bridge to digital and cloud—they're not wrong

These conditions set the stage for HFS' attendance at HCLTech's first Financial Services Analyst & Advisor Day in New York. While the 101st-floor views from Hudson Yards were somewhat obscured by cloudy weather, the event effectively showcased what HCLTech does best: delivering value to its customers with a mix of IT infrastructure services and digital, underpinned by "efficiency engineering" to help drive out cost and build extensible solutions. The Head of Consumer Banking Technology for a credit union put it aptly, "We have no appetite for investing in non-differentiating tech."

BFSI sub-sectors like commercial banking, asset and wealth management, retirement, and life and annuities are starved for digital hygiene investments for things like streamlined customer onboarding, effective self-service options, and real-time data integration options. Smaller-tier firms like local banks, credit unions, and building societies also want to bring digital benefits to their clients. However, they remain largely neglected by ineffective trickle-down digital, where custom solutions for big firms are out of their budgetary reach. All these firms are willing to invest in their digital futures despite the headwinds, but projects must be impactful, and progress must be swift and visible.

Here are our top takeaways from the event for BFSI enterprises trying to make progress in the year of the digital dichotomy.

Verticalized infrastructure is a cornerstone for modernization

"Accelerating our hybrid cloud environment" is how one insurance client described HCLTech's range of IT services and infrastructure work. It sounds more exciting this way, which is the point. Infrastructure services done well for industries help drive modernization and serve as a bridge to the future.

Srini Seshadri, HCLTech's Chief Growth Officer and Global Head of Financial Services, indicated the firm is taking an industry-led approach to infrastructure to help best contextualize it for BFSI firms. Much like the fallacy of "industry cloud," there is seldom much difference in infrastructure services by industry. However, the context in which they're used, deployed, and modernized benefits greatly from industry knowledge. HCLTech's "verticalized infrastructure" services help it help BFSI clients shake out operating costs and prepare for the future. Infrastructure services and digital services roughly contribute a 50/50 revenue split in BFSI.

Third-party platforms, not HCLTech platforms, drive extensible speed to solution

For a company with a software business that dropped $1.8 billion on IBM software products back in 2018, this seems like an odd statement. HCLTech has been trying to stand up something called Novus for financial services. Forgive the imprecise description, but that was the problem—HCLTech opportunistically defined it as a platform, a framework, and a collection of accelerators. Whatever it was, HCLTech is moving away from it to firmly embrace a best-of-breed partner approach with the likes of Avaloq (buttressed by its Confinale acquisition in 2022), Salesforce, Pega, various core banking platforms, data platforms like Snowflake, and the mighty hyperscaler trio, AWS, GCP, and Microsoft Azure.

The third-party platform strategy lets HCLTech offer rapid speed-to-solution for modernization-hungry BFSI firms through cloud-based solutions, as evidenced by a thrilled US credit union for which it launched a digital banking platform on Salesforce. While this approach delivers value now, the real opportunity for BFSI enterprises is to leverage these platforms as a path to more workloads in the cloud and value-generating ecosystem creation. Hollowing the core is a strategy for buying time—not long-term modernization.

Financial strength can be a deciding factor when other qualifications are at parity

HCLTech had a strong FY 2023, putting up mostly organic revenue growth of about 10%, driven by manufacturing, communications, media and technology, and a bit of life sciences and healthcare. BFSI was not its growth poster child, but as the firm rolls into FY 2024 with continued market headwinds, it put up 5.1% quarter-on-quarter growth and 14.4% year-on-year growth.

Given the macroeconomic "slowdown" we referenced earlier visibly manifesting with bank failures, rating degradation, and off-balance-sheet losses driven by spiraling interest rates, this is a notable achievement and one eluding many of its TWILTCH (TCS, Wipro, Infosys, LTIMindtree, Tech Mahindra, Cognizant, HCLTech) Indian heritage services compatriots. Its financial strength helps make it easier for BFSI clients to choose HCLTech.

Supercharging progress is not just a marketing tagline; it's BFSI client Kool-Aid

Clients at this event and many of those HFS has interacted with in the past couple of years are 100% bought into that what they are doing with HCLTech is supercharging progress. It may be infrastructure-focused, as in its recent deal with new to outsourcing midwestern "good neighbor" State Farm, or its multi-faceted 15-year-old relationship with an asset-servicing firm that now leverages application-based pricing rather than time-and-materials-based pricing. But in all cases, there is a clear focus on doing necessary and sometimes mundane work to drive rapid impact for stakeholders and readiness for a digital future. Yup, in the eyes of BFSI enterprises, HCLTech is supercharging progress.

The Bottom Line: As BFSI enterprises fight to make meaningful progress in the year of the digital dichotomy, HCLTech is delivering sometimes mundane—but always impactful—value.

A bit like summer camp kumbaya sing-alongs, HCLTech and its BFSI clients are making progress and delivering outcomes in a difficult year. Infrastructure is not a sexy path, but it has a critical role as the underpinning to applications modernization, platforms, and enhanced cloud utilization. BFSI firms of all sizes have pressing requirements for digital progress and a natural proclivity for financially engineered deals. HCLTech is there for you.

HFS Research author

Elena Christopher

Chief Research Officer

Elena Christopher is Chief Research Officer at HFS. Elena sets the strategic research focus and agenda for HFS Research, understanding and predicting the needs of the industry and ensuring our unique "analyst advisory" capabilities drive thought-provoking impact across enterprises and their associated emerging technology and services ecosystems. Elena also leads our industry research coverage, with a specialization in banking and financial services.

About HFS

Insight. Inspiration. Impact.

HFS is a leading global research and analysis firm trusted at the highest levels of executive leadership. Our mission is to help our clients tackle challenges, make bold moves, and bring big ideas to life by arming them with accurate, visionary, and thought-provoking insight into issues that impact their business.

Our analysts and strategists have deep, real-world experience in the subjects they cover. They're respected for their independent, no-nonsense perspectives based on thorough research, demand-side data, and personal engagements with industry leaders.

We have one goal above all others: to propel you to success.